

**NEGAUNEE PUBLIC SCHOOLS
NEGAUNEE, MICHIGAN**

FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

TABLE OF CONTENTS

Independent Auditors' Report	4
Management's Discussion and Analysis	6

BASIC FINANCIAL STATEMENTS

District-wide Financial Statements:

Statement of Net Assets	12
Statement of Activities	13

Fund Financial Statements:

Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Fiduciary Funds:	
Statement of Net Assets	18
Notes to Financial Statements	19

REQUIRED SUPPLEMENTAL INFORMATION

General Fund:

Budgetary Comparison Schedule	34
-------------------------------------	----

OTHER SUPPLEMENTAL INFORMATION

General Fund:

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	36
---	----

Nonmajor Governmental Funds:

Combining Balance Sheet	43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	44

Nonmajor Special Revenue Funds:

Combining Balance Sheet	45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	46
School Lunch Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	47
Athletics Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	48

Nonmajor Debt Service Funds:

Combining Balance Sheet	49
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	50

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	54
Schedule of Expenditures of Federal Awards.....	56
Notes to Schedule of Expenditures of Federal Awards	59
Schedule of Findings and Questioned Costs.....	61
Summary Schedule of Prior Audit Findings	63
Report to Management Letter	64



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Negaunee Public Schools, Negaunee, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Negaunee Public Schools basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Negaunee Public Schools, Negaunee, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Negaunee Public Schools, Negaunee, Michigan as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the Negaunee Public Schools, Negaunee, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. This report can be found on page 52.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Negaunee Public Schools, Negaunee, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Negaunee Public Schools, Negaunee, Michigan. The combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 22, 2006

Negaunee Public Schools

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Negaunee Public Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Negaunee Public Schools as a whole were reported at \$4,329,791. Net assets are comprised of 100% governmental activities.
- During the year, Negaunee Public Schools expenses were \$12,746,917, while revenues from all sources totaled \$13,480,811, resulting in an increase in net assets of \$733,894.
- The general fund reported an increase of \$60,186 before other financing sources (uses) and a total decrease of \$(107,721). This is \$263,741 or 71% higher than the forecasted decrease of \$(371,462). This was a result of revenues and other sources being \$193,214 higher than forecasted and expenses and transfers out being \$70,527 lower than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Negaunee Public Schools financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Negaunee Public Schools as a whole begins on page 8. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues

Management's Discussion and Analysis (Unaudited) (Continued)

and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds – *governmental* and *proprietary* – use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2006:

Table 1
Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Current and other assets	\$3,026,744	\$2,961,519
Capital assets, net	5,307,967	5,078,783
Total Assets	8,334,711	8,040,302
Current liabilities	2,429,078	2,278,072
Long-term liabilities	1,575,842	2,166,333
Total Liabilities	4,004,920	4,444,405
Net Assets:		
Invested in capital assets, net of relate debt	3,741,042	3,282,114
Restricted	349,595	130,786
Unrestricted	239,154	182,997
Total Net Assets	\$4,329,791	\$3,595,897

The School District's net assets were \$4,329,791 at June 30, 2006. Capital assets, net of related debt totaling \$3,741,042, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$239,154 was unrestricted.

The \$239,154 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006.

Table 2
Changes in Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues:		
Program revenues:		
Charges for services	\$902,822	\$510,858
Operating grants and contributions	1,533,324	1,655,322
General revenues:		
Property taxes	1,973,914	1,900,612
State sources not restricted to specific program	8,922,147	8,719,754
Investment earnings	71,746	37,267
Gain (Loss) on sale of capital assets	2,553	4,431
Miscellaneous	74,305	72,702
Total Revenues	13,480,811	12,900,946

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities – 2006	Governmental Activities – 2005
Program Expenses:		
Instruction	\$7,385,438	\$7,499,516
Supporting services	4,047,157	3,293,173
Other governmental units	117,092	119,024
Food service activities	512,142	490,313
Athletic activities	279,071	301,286
Depreciation – unallocated	337,626	328,482
Interest on long-term debt	68,391	92,492
Total Expenses	<u>12,746,917</u>	<u>12,124,286</u>
Increase (decrease) in net assets	733,894	776,660
Net assets, beginning	3,595,897	2,819,237
Net Assets, Ending	<u>\$4,329,791</u>	<u>\$3,595,897</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$12,746,917. Certain activities were partially funded from those who benefited from the programs (\$902,822) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1,533,324). We paid for the remaining "public benefit" portion of our governmental activities with \$1,973,914 in taxes, \$8,922,147 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$733,894. The key changes in the net assets were the result of capital purchases in excess of current depreciation of \$235,852, net debt activity of \$422,685 accounted for through Statement of Net Assets but budgeted as fund expenditures and net decrease in employee benefit obligation of (\$126,176).

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$7,385,438	\$7,499,516
Supporting services	4,047,157	3,293,173
Other governmental units	117,092	119,024
Food service activities	512,142	490,313
Athletic activities	279,071	301,286
Totals	<u>\$12,340,900</u>	<u>\$11,703,312</u>

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,214,071, a decrease of \$41,316 from the beginning of the year.

During the annual School election in June of 2004, the residents of the School District passed a proposal to establish a Sinking Fund to be used as allowed by law. For the 05-06 school year, \$478,070 revenues was collected from the millage assessed for this purpose. A portion of these revenues have been carried over in the combined fund balance to pay for projects to be completed after June 30, 2006, which increased the School District's fund balance to an amount higher than anticipated.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

With the uncertainty of the revenues coming from the State of Michigan, the administration became very conservative with controllable expenses as the school year came to a close. This action, along with unexpected revenue from many different local sources, has had a positive impact on the School District's General Fund fund balance. These types of local revenues cannot be budgeted as revenue during the school year as we cannot plan on their occurrence because of the types of activities that generate the revenues.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$5,287,966 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities – 2006	Governmental Activities – 2005
Land	\$92,536	\$92,536
Land improvements	68,029	78,615
Buildings	4,284,234	4,309,450
Equipment and furnishings	573,512	564,513
Construction in progress	269,655	7,000
Totals	<u>\$5,287,966</u>	<u>\$5,052,114</u>

Management's Discussion and Analysis (Unaudited) (Continued)

This year's additions of \$573,478 included office equipment, technology, building renovations, and buses. Debt was issued in the amount of \$116,310 to finance the purchase of buses.

We anticipate capital additions for the 2006-2007 fiscal year will be comparable to the 2005-2006 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$1,555,429 in bonds outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities – 2006	Governmental Activities – 2005
General obligation bonds	\$1,285,000	\$1,770,000
Notes payable	163,898	92,849
Durant debt	106,531	115,264
Totals	<u>\$1,555,429</u>	<u>\$1,978,113</u>

There was one new addition to debt this year for the purchase of school buses. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2007 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 75 percent to 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be less than the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

The collection of revenues by the State can also affect the School District's general operation budget as it did in 2006. School districts throughout the state must adjust their budgets if the State decreases the per pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2006-07 school year, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Negaunee Public Schools Administration, 101 South Pioneer Avenue, Negaunee, Michigan, 49866.

**Negaunee Public Schools
Statement of Net Assets
June 30, 2006**

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 703,634
Investments	216,274
Receivables:	
Accounts receivable	18,460
Due from other governmental units	2,039,828
Inventories	3,158
Prepaid expenses	45,390
	<hr/>
TOTAL CURRENT ASSETS	3,026,744
	<hr/>
Noncurrent assets:	
Unamortized bond issue costs	20,001
Land	92,536
Capital assets	12,874,381
Less accumulated depreciation	(7,678,951)
	<hr/>
TOTAL NONCURRENT ASSETS	5,307,967
	<hr/>
TOTAL ASSETS	8,334,711
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	279,163
Accrued liabilities	162,160
Due to other governmental units	38,358
State aid notes payable	1,300,000
Current portion of employee benefit obligations	56,207
Current portion of long term debt obligations	560,198
Deferred revenue	32,992
	<hr/>
TOTAL CURRENT LIABILITIES	2,429,078
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of employee benefit obligations	589,116
Noncurrent portion of long term debt obligations	995,231
Less deferred discount on refunding bonds	(8,505)
	<hr/>
TOTAL NONCURRENT LIABILITIES	1,575,842
	<hr/>
TOTAL LIABILITIES	4,004,920
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	3,741,042
Restricted:	
Capital Projects	202,155
Debt Service	147,440
Unrestricted	239,154
	<hr/>
TOTAL NET ASSETS	<u><u>\$ 4,329,791</u></u>

See Notes to Financial Statements.

**Negaunee Public Schools
Statement of Activities
For the Year Ended June 30, 2006**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 7,385,438	\$ 25,344	\$ 1,284,108	\$ (6,075,986)
Supporting services	4,047,157	50,266	-	(3,996,891)
Other governmental units	117,092	442,432	-	325,340
Food service activities	512,142	275,463	214,668	(22,011)
Athletic activities	279,071	109,317	34,548	(135,206)
Interest on retirement of debt	68,391	-	-	(68,391)
Depreciation- unallocated	337,626	-	-	(337,626)
TOTAL GOVERNMENTAL ACTIVITIES	12,746,917	902,822	1,533,324	(10,310,771)
General revenues:				
Taxes				
Property taxes, levied for general purposes				1,076,404
Property taxes, levied for debt services				419,440
Property taxes, levied for sinking fund				478,070
State Aid not restricted to specific purposes				
General				8,922,147
Interest and investment earnings				71,746
Gain on sale of capital asset				2,553
Miscellaneous				74,305
TOTAL GENERAL REVENUES AND TRANSFERS				11,044,665
				CHANGES IN NET ASSETS
				733,894
Net Assets , July 1				3,595,897
				NET ASSETS, JUNE 30
				\$ 4,329,791

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Balance Sheet
June 30, 2006**

	General Fund	Capital Projects Funds	Other Nonmajor Governmental Funds	Total
ASSETS:				
Cash and cash equivalents	\$ 159,938	\$ 404,769	\$ 138,927	\$ 703,634
Investments	206,977	-	9,297	216,274
Receivables:				
Accounts receivable	11,120	-	6,350	17,470
Due from other governmental units	2,006,442	-	33,386	2,039,828
Due from other funds	44,021	-	-	44,021
Inventories	-	-	3,158	3,158
Prepaid expenditures	45,390	-	-	45,390
TOTAL ASSETS	\$ 2,473,888	\$ 404,769	\$ 191,118	\$ 3,069,775
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 75,739	\$ 202,614	\$ 647	\$ 279,000
Accrued liabilities	162,160	-	-	162,160
Due to other governmental units	38,358	-	-	38,358
Due to other funds	163	-	43,031	43,194
Deferred revenue	32,992	-	-	32,992
State aid notes payable	1,300,000	-	-	1,300,000
TOTAL LIABILITIES	1,609,412	202,614	43,678	1,855,704
FUND BALANCES:				
Reserved for:				
Capital projects	-	202,155	-	202,155
Retirement of debt	-	-	147,440	147,440
Unreserved	864,476	-	-	864,476
TOTAL FUND BALANCES	864,476	202,155	147,440	1,214,071
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,473,888	\$ 404,769	\$ 191,118	\$ 3,069,775

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006**

Total Fund Balances for Governmental Funds	\$	1,214,071
---	-----------	------------------

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

	Cost of capital assets	12,966,917
	Accumulated depreciation	<u>(7,678,951)</u>
		5,287,966

Unamortized bond issue costs are not financial resources
and therefore are not reported in the funds.

20,001

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable	1,391,531	
Notes payable	163,898	
Employee benefits payable	645,323	
Deferred discount on refunding bonds	<u>(8,505)</u>	
		(2,192,247)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>4,329,791</u>
--	-----------	-------------------------

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006**

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Taxes and penalties	\$ 1,076,404	\$ 478,070	\$ 419,440	\$ 1,973,914
Interest income	45,275	12,558	13,913	71,746
Payments from other governmental units	442,432	-	-	442,432
Other local sources	241,320	-	419,328	660,648
State sources	9,741,063	-	22,044	9,763,107
Federal sources	363,670	-	192,624	556,294
Other	-	-	12,670	12,670
TOTAL REVENUES	11,910,164	490,628	1,080,019	13,480,811
EXPENDITURES:				
Current:				
Instruction	7,515,341	-	-	7,515,341
Supporting services	4,176,032	-	-	4,176,032
Food service activities	-	-	512,142	512,142
Athletic activities	-	-	279,071	279,071
Debt Service:				
Principal	45,262	-	493,733	538,995
Interest	6,554	-	61,837	68,391
Capital outlay	-	440,876	-	440,876
Other	106,789	-	800	107,589
TOTAL EXPENDITURES	11,849,978	440,876	1,347,583	13,638,437
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	60,186	49,752	(267,564)	(157,626)
OTHER FINANCING SOURCES (USES):				
Proceeds from notes	116,310	-	-	116,310
Transfers in	-	-	284,217	284,217
Transfers out	(284,217)	-	-	(284,217)
TOTAL OTHER FINANCING SOURCES (USES)	(167,907)	-	284,217	116,310
NET CHANGE IN FUND BALANCES	(107,721)	49,752	16,653	(41,316)
Fund Balance, July 1	972,197	152,403	130,787	1,255,387
FUND BALANCE, JUNE 30	\$ 864,476	\$ 202,155	\$ 147,440	\$ 1,214,071

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds **\$ (41,316)**

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	337,626	
Capital outlays	<u>(573,478)</u>	235,852

Governmental funds do not report capital assets. Therefore, the net book value on the disposal of capital assets is only reported as an expense in the statement of activities.

-

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

(116,310)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

538,995

Deferred discount on refunding bonds is reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.

(2,835)

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.

(6,668)

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

126,176

Change in Net Assets of Governmental Activities

\$ 733,894

See Notes to Financial Statements.

**Negaunee Public Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006**

	Student Activity Agency Fund
	<hr/>
ASSETS:	
Cash and equivalents	\$ 132,233
Investments	54,156
Due from other funds	<hr/> 163
	<hr/>
TOTAL ASSETS	\$ 186,552 <hr/> <hr/>
LIABILITIES:	
Due to groups, organizations and activities	\$ 185,562
Due to other funds	<hr/> 990
	<hr/>
TOTAL LIABILITIES	\$ 186,552 <hr/> <hr/>

See Notes to Financial Statements.

NEGAUNEE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Negaunee Public Schools conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the Negaunee Public Schools contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund - The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service and Athletics Funds.

Debt Retirement Funds - The Debt Retirement Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Fund - Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and

any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District' policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$32,992 in the General Fund for grant funding that has been received but is unearned and delinquent property taxes receivable.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

Property Taxes

Property taxes are levied on July 1, on behalf of the District by various taxing units and are payable without penalty by September 14. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Assets.

	Primary Government	Fiduciary Funds	Total
Cash and cash equivalents	\$703,634	\$132,233	\$835,867
Investments	216,274	54,156	270,430
TOTALS	<u>\$919,908</u>	<u>\$186,389</u>	<u>\$1,106,297</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. The carrying amounts of the District's deposits with financial institutions were \$835,867 and the bank balance was \$1,442,865. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 200,000
Amount uncollateralized and uninsured	1,242,865
	<u>\$1,442,865</u>

Investments

As of June 30, 2006, the District had the following investments.

Investment Type	Fair Value	Investment Maturities Less than 1 Year
Michigan Liquid Asset Fund – Mutual Funds	<u>\$216,274</u>	<u>\$216,274</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The District's investments are in accordance with statutory authority.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of \$1,762,554 due from the State of Michigan for State Aid and \$277,274 due from other governmental units for the operation of special programs and grant projects.

NOTE D – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

Negaunee Public Schools reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$44,021	Lunch	\$33,582
		Athletic	9,449
		Agency	990
Agency	163	General	163
Total	<u>\$44,184</u>	Total	<u>\$44,184</u>

A summary of transfers to/from other funds during fiscal year 2006 is as follows:

Fund	Transfers In	Fund	Transfers Out
Athletics	\$135,206	General	\$284,217
Lunch	22,011		
Debt Service	127,000		
Total	<u>\$284,217</u>	Total	<u>\$284,217</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$92,536	\$-	\$-	\$92,536
Construction in progress	7,000	269,655	7,000	269,655
Capital assets being depreciated:				
Land improvements	260,013	-	-	260,013
Buildings and additions	9,369,059	162,638	-	9,531,697
Equipment and furniture	1,922,621	31,875	-	1,954,496
School buses	830,851	116,310	88,641	858,520
Total Capital Assets	<u>12,482,080</u>	<u>580,478</u>	<u>95,641</u>	<u>12,966,917</u>

NOTE E – CAPITAL ASSETS (Continued):

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Less accumulated depreciation:				
Land improvements	\$181,398	\$10,586	\$-	\$191,984
Buildings and additions	5,059,609	187,855	-	5,247,464
Equipment and furniture	1,585,661	58,681	-	1,644,341
School buses	603,298	80,504	88,641	595,162
Total Accumulated Depreciation	7,429,966	337,626	88,641	7,678,951
CAPITAL ASSETS, NET	\$5,052,114	\$242,852	\$7,000	\$5,287,966

Depreciation expense charged to governmental activities was \$337,626.

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District offers terminal leave benefits for teachers having ten years of service. This payment is based upon the teacher's base salary at retirement and the number of years of service beyond ten years.

There is also an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days at a rate of \$20 for each day accumulated prior to September 1, 1981 and \$47.42 for each day accumulated after September 1, 1981. The sick leave liability has been calculated in accordance with GASB #16.

Accrued vacation represents vacation time that has been earned but not taken. This vacation time must be used by the union employees within three months after their next anniversary date, or it will be forfeited. For administrative/supervisory employees this vacation time is paid out at their next anniversary date.

As of June 30, 2006, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Early Retirement	\$56,207
Terminal Leave	60,240
Sick Leave	519,231
Vacation	9,645
TOTAL	<u>\$645,323</u>

NOTE G – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

Capital Projects Funds – The resources of the Capital Projects Funds have been accumulated for the specific purpose of acquiring fixed assets. The funds are reserved for these purposes.

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2006:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Bonds Payable:				
1997 General Obligation Bonds	\$240,000	\$-	\$115,000	\$125,000
1998 School Improvement Bonds	115,264	-	8,733	106,531
2002 Refunding Bonds	1,530,000	-	370,000	1,160,000
Notes Payable	92,849	-	21,999	70,850
Notes Payable	-	116,310	23,262	93,048
Employee Benefits Payable	771,499	11,712	137,888	645,323
TOTAL	\$2,749,612	\$128,022	\$676,882	\$2,200,752

Long-term debt at June 30, 2006 consists of the following:

**1997 General Obligation
School Building and Site Bonds
June 30, 2006**

School Year	November 1	May 1		Total
	Interest	Interest	Principal	
2006-2007	\$3,125	\$3,125	\$125,000	\$131,250

General Obligation School Building and Site Bonds originally issued for \$995,000 and dated June 1, 1997 mature annually on May 1, 1998 through May 1, 2007 and bear interest at a rate of 4.5% to 5% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

**School Improvement Bonds
Series 1998
June 30, 2006**

School Year	Interest	Principal	Total
2006-2007	\$3,521	\$9,147	\$12,668
2007-2008	3,085	9,584	12,669
2008-2009	2,629	10,041	12,670
2009-2010	2,151	10,518	12,669
2010-2011	1,650	11,020	12,670
2011-2013	16,235	56,221	72,456
	<u>\$29,271</u>	<u>\$106,531</u>	<u>\$135,802</u>

The School Improvement Bonds, Series 1998 (\$180,419) dated November 24, 1998 mature annually on May 15, with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan.

**1997 General Obligation
Refunding Bonds, Series 2002
June 30, 2006**

School Year	November 1	May 1		Total
	Interest	Interest	Principal	
2006-2007	\$17,400	\$17,400	\$380,000	\$414,800
2007-2008	11,700	11,700	390,000	413,400
2008-2009	5,850	5,850	390,000	401,700
	<u>\$34,950</u>	<u>\$34,950</u>	<u>\$1,160,000</u>	<u>\$1,229,900</u>

NOTE H – LONG-TERM DEBT (Continued):

Refunding Bonds originally issued for \$1,890,000 and dated November 13, 2002, mature annually on May 1, 2005 through May 1, 2009 and bear interest at a rate of 3% per annum. Interest is paid semi-annually on May 1 and November 1 each year beginning May 1, 2003.

School Bus Notes Payable**June 30, 2006**

School Year	Interest	Principal	Total
2006-2007	\$2,543	\$22,789	\$25,332
2007-2008	1,725	23,607	25,332
2008-2009	878	24,454	25,332
	<u>\$5,146</u>	<u>\$70,850</u>	<u>\$75,996</u>

Notes payable originally issued for \$114,526 and dated August 10, 2004 mature annually as scheduled above on June 30, 2006 through June 30, 2009 bearing an interest rate of 3.59% per annum.

School Bus Notes Payable**June 30, 2006**

School Year	Interest	Principal	Total
2006-2007	\$3,527	\$23,262	\$26,789
2007-2008	2,645	23,262	25,907
2008-2009	1,763	23,262	25,025
2009-2010	882	23,262	24,144
	<u>\$8,817</u>	<u>\$93,048</u>	<u>\$101,865</u>

Notes payable originally issued for \$116,310 and dated August 08, 2005 mature annually as scheduled above on May 1, 2006 through May 1, 2010 bearing an interest rate of 3.79% per annum.

As of June 30, 2006 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

School Year	Principal	Interest	Total
2006-2007	\$560,198	\$50,641	\$610,839
2007-2008	446,453	30,855	477,308
2008-2009	447,757	16,970	464,727
2009-2010	33,780	3,033	36,813
2010-2011	11,020	1,650	12,670
2011-2013	56,221	16,235	72,456
	<u>1,555,429</u>	<u>119,384</u>	<u>1,674,813</u>
Employee Benefits Payable	645,323	-	645,323
TOTALS	<u>\$2,200,752</u>	<u>\$119,384</u>	<u>\$2,320,136</u>

NOTE I – SHORT TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
State Anticipation Note	<u>\$995,000</u>	<u>\$1,300,000</u>	<u>\$995,000</u>	<u>\$1,300,000</u>

NOTE J – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on a blended count consisting of 25% of the February 2005 pupil count and 75% of the September 2005 pupil count.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2005 – August 2006.

NOTE K – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2006:

	<u>Excess Expenditures</u>
General Fund:	
Basic programs	\$10,942
Added needs	1,410
Business Services	6,963
Payments to other Public Schools	2,560
Principal and interest on notes	1
Special Revenue Funds:	
Food service activities	10,763
Athletic activities	431

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$1,368,883 which consisted of \$1,152,618 from the District and \$216,266 from employees electing the MIP option. These represent approximately 14% and 3% of covered payroll, respectively. The District's contribution to MPSERS for 2005 was \$1,000,641 and \$888,211 for 2004.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$7,157,450. The District's total payroll was approximately \$7,175,191.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE M – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – CONTINGENT LIABILITIES (Continued):

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE N – ECONOMIC DEPENDENCY:

The School District receives approximately 80 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of Negaunee Public Schools.

NOTE O – SINKING FUND:

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE P – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2005 totaled \$154,125,233 (\$94,127,677 designated as Homestead and \$59,997,556 designated as Non-Homestead). The total tax levied consists of 17.8020 mills for the General Fund, 1.9500 for debt retirement, and 2.2261 for the Building and Site Fund.

NOTE Q – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2006 as follows:

	Governmental Activities
Accrued wages	\$ 31,836
MESSA payable	111,520
Accrued fringes	18,804
	<u>\$ 162,160</u>

NOTE R – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$18,408 during fiscal year 2005-06 in revenues and expenditures for USDA commodities.

**REQUIRED SUPPLEMENTAL
INFORMATION**

**Negaunee Public Schools
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 1,632,984	\$ 1,730,821	\$ 1,805,431	\$ 97,837	\$ 74,610
State sources	9,352,361	9,613,385	9,741,063	261,024	127,678
Federal sources	337,341	372,744	363,670	35,403	(9,074)
TOTAL REVENUES	11,322,686	11,716,950	11,910,164	394,264	193,214
EXPENDITURES:					
Instruction:					
Basic programs	5,133,595	5,590,955	5,601,897	(457,360)	(10,942)
Added needs	2,215,974	1,912,034	1,913,444	303,940	(1,410)
Total Instruction	7,349,569	7,502,989	7,515,341	(153,420)	(12,352)
Supporting Services:					
Pupil services	601,459	548,290	547,024	53,169	1,266
Instructional staff	436,003	455,666	447,541	(19,663)	8,125
General administration	237,771	265,384	259,609	(27,613)	5,775
School administration	652,432	749,390	747,281	(96,958)	2,109
Business services	234,126	251,046	258,009	(16,920)	(6,963)
Operations and maintenance	1,119,087	1,145,254	1,114,313	(26,167)	30,941
Pupil Transportation	645,159	781,946	765,258	(136,787)	16,688
Supporting services - central	39,666	40,772	36,997	(1,106)	3,775
Total Supporting Services	3,965,703	4,237,748	4,176,032	(272,045)	61,716
Other Expenditures:					
Community services	23,069	23,569	19,029	(500)	4,540
Payments to other public schools	-	85,200	87,760	(85,200)	(2,560)
Principal and interest on notes	-	51,815	51,816	(51,815)	(1)
TOTAL EXPENDITURES	11,338,341	11,901,321	11,849,978	(562,980)	51,343
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,655)	(184,371)	60,186	(168,716)	244,557
OTHER FINANCING SOURCES (Uses)					
Proceeds from notes	-	116,310	116,310	116,310	-
Transfers in	-	-	-	-	-
Transfers out	(461,111)	(303,401)	(284,217)	157,710	19,184
TOTAL OTHER FINANCING SOURCES (USES)	(461,111)	(187,091)	(167,907)	274,020	19,184
NET CHANGE IN FUND BALANCE	(476,766)	(371,462)	(107,721)	105,304	263,741
Fund Balance, July 1	972,197	972,197	972,197	-	-
FUND BALANCE, JUNE 30	\$ 495,431	\$ 600,735	\$ 864,476	\$ 105,304	\$ 263,741

**OTHER SUPPLEMENTAL
INFORMATION**

Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Property tax levy	\$ 1,069,667	\$ 1,071,990	\$ 2,323
Penalty and interest on delinquent taxes	4,414	4,414	-
Income from investments	42,000	45,275	3,275
Transfers from other governmental units	390,084	442,432	52,348
Recovery of Indirect costs	30,487	29,935	(552)
Other local revenue	194,169	211,385	17,216
Total Local Sources	1,730,821	1,805,431	74,610
State Sources:			
State school aid - unrestricted	9,369,126	8,922,147	(446,979)
Restricted:			
At risk	161,716	161,584	(132)
Durant funds	18,042	18,042	-
Special education	-	562,244	562,244
Drivers education	-	-	-
Advanced and accelerated	-	-	-
Vocational education	47,782	45,526	(2,256)
Other grants	16,719	31,520	14,801
Total State Sources	9,613,385	9,741,063	127,678
Federal Sources:			
Restricted:			
Title VII - Indian Education	21,462	21,461	(1)
Restricted - received through the state:			
Title II D	5,693	5,693	-
Title I, Part A	184,542	202,851	18,309
Title V, Part A	1,503	1,503	-
Title IIA	82,675	52,344	(30,331)
Restricted - received through MARESA:			
Preschool	1,000	1,000	-
Entrepreneurship Curr Dev	600	600	-
Perkins Grant	12,243	12,243	-
Safe & Drug Free Schools	3,095	3,095	-
Flow Through	58,130	61,079	2,949
Upper Peninsula Autism Network	670	670	-
LEA Medicaid FFS-Transportation	1,131	1,131	-
Total Federal Sources	372,744	363,670	(9,074)
TOTAL REVENUES	11,716,950	11,910,164	193,214

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Instruction:			
Basic Programs:			
Elementary:			
Salaries	\$ 1,462,486	\$ 1,460,389	\$ 2,097
Employee benefits	733,985	722,995	10,990
Purchased services	650	1,729	(1,079)
Supplies and materials	56,231	58,330	(2,099)
Capital outlay	100	99	1
Total Elementary	2,253,452	2,243,542	9,910
Middle School:			
Salaries	998,373	1,000,661	(2,288)
Employee benefits	502,812	508,041	(5,229)
Purchased services	16,811	31,455	(14,644)
Supplies and materials	38,865	38,271	594
Capital outlay	3,700	3,691	9
Other expenses	490	551	(61)
Total Middle School	1,561,051	1,582,670	(21,619)
High School:			
Salaries	1,139,362	1,128,515	10,847
Employee benefits	587,338	594,968	(7,630)
Purchased services	9,398	9,567	(169)
Supplies and materials	30,009	32,291	(2,282)
Capital outlay	5,698	5,698	-
Other expenses	4,647	4,646	1
Total High School	1,776,452	1,775,685	767
Total Basic Programs	5,590,955	5,601,897	(10,942)
Added Needs:			
Special Education:			
Salaries	884,071	871,568	12,503
Employee benefits	396,993	400,211	(3,218)
Purchased services	175	683	(508)
Supplies and materials	13,058	11,186	1,872
Capital outlay	-	-	-
Other expenses	53	101	(48)
Total Special Education	1,294,350	1,283,749	10,601

Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
Compensatory Education:			
Salaries	\$ 209,560	\$ 213,727	\$ (4,167)
Employee benefits	94,091	100,972	(6,881)
Purchased services	-	-	-
Supplies and materials	777	7,491	(6,714)
Capital outlay	-	-	-
Total Compensatory Education	304,428	322,190	(17,762)
Career and Technical Education:			
Salaries	177,832	175,082	2,750
Employee benefits	92,620	91,906	714
Purchased services	18,306	15,577	2,729
Supplies and materials	8,674	9,116	(442)
Capital outlay	15,824	15,824	-
Total Career and Technical Education	313,256	307,505	5,751
Total Added Needs	1,912,034	1,913,444	(1,410)
TOTAL INSTRUCTION	7,502,989	7,515,341	(12,352)
Supporting Services:			
Pupil Services:			
Guidance Services:			
Salaries	228,993	229,434	(441)
Employee benefits	117,179	117,386	(207)
Purchased services	530	530	-
Supplies and materials	1,040	1,120	(80)
Total Guidance Services	347,742	348,470	(728)
Health Services:			
Salaries	18,100	18,039	61
Employee benefits	6,493	6,352	141
Purchased services	8,016	7,961	55
Supplies and materials	365	374	(9)
Total Health Services	32,974	32,726	248
Speech Pathology and Audiology Services:			
Salaries	64,221	64,290	(69)
Employee benefits	32,189	33,644	(1,455)
Purchased services	8,333	8,332	1
Supplies and materials	1,289	1,408	(119)
Total Speech Pathology and Audiology Services	106,032	107,674	(1,642)

Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
Teacher Consultant:			
Salaries	\$ 11,581	\$ 11,581	\$ -
Employee benefits	5,826	5,818	8
Purchased services	-	-	-
Supplies and materials	-	-	-
Total Teacher Consultant	17,407	17,399	8
Other Pupil Support Services:			
Salaries	33,731	30,461	3,270
Employee benefits	7,585	7,296	289
Purchased services	431	813	(382)
Supplies and materials	2,388	2,185	203
Total Other Pupil Support Services	44,135	40,755	3,380
Total Pupil Services	548,290	547,024	1,266
Instructional Staff:			
Improvement of Instruction:			
Salaries	1,290	3,480	(2,190)
Employee benefits	272	812	(540)
Purchased services	22,163	12,200	9,963
Supplies and materials	13,045	13,117	(72)
Other expenses	-	78	(78)
Total Improvement of Instruction	36,770	29,687	7,083
Library:			
Salaries	91,512	92,277	(765)
Employee benefits	39,723	43,409	(3,686)
Purchased services	6,149	6,140	9
Supplies and materials	13,798	13,605	193
Other expenses	810	-	810
Total Library	151,992	155,431	(3,439)
Technology Assisted Instruction:			
Salaries	133,986	134,786	(800)
Employee benefits	62,629	64,685	(2,056)
Purchased services	19,247	17,548	1,699
Supplies and materials	3,630	2,908	722
Capital outlay	1,373	1,373	-
Other expenses	-	-	-
Total Technology Assisted Instruction	220,865	221,300	(435)
Supervision and Direction of Instructional Staff:			
Salaries	29,169	28,628	541
Employee benefits	12,688	6,813	5,875
Purchased services	1,500	4,350	(2,850)
Supplies and materials	2,662	1,312	1,350
Capital outlay	-	-	-
Other expenses	20	20	-
Total Supervision and Direction of Instructional Staff	46,039	41,123	4,916
Total Instructional Staff	455,666	447,541	8,125

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
General Administration:			
Board of Education:			
Salaries	\$ -	\$ -	\$ -
Employee benefits	270	-	270
Purchased services	33,848	30,610	3,238
Supplies and materials	6,100	6,184	(84)
Other expenses	4,950	5,072	(122)
Total Board of Education	45,168	41,866	3,302
Executive Administration:			
Salaries	140,541	141,604	(1,063)
Employee benefits	66,647	64,976	1,671
Purchased services	8,928	9,044	(116)
Supplies and materials	1,500	1,182	318
Capital outlay	1,000	-	1,000
Other expenses	1,600	937	663
Total Executive Administration	220,216	217,743	2,473
Total General Administration	265,384	259,609	5,775
School Administration:			
Offices of Principals:			
Salaries	451,825	451,883	(58)
Employee benefits	188,321	193,423	(5,102)
Purchased services	48,207	48,252	(45)
Supplies and materials	7,110	7,122	(12)
Capital outlay	15,800	15,734	66
Other expenses	2,103	3,183	(1,080)
Total Offices of Principals	713,366	719,597	(6,231)
Other School Administration:			
Salaries	25,600	22,047	3,553
Employee benefits	8,424	5,637	2,787
Purchased services	2,000	-	2,000
Total Other School Administration	36,024	27,684	8,340
Total School Administration	749,390	747,281	2,109
Business Services:			
Fiscal Services:			
Salaries	100,915	102,103	(1,188)
Employee benefits	95,091	95,597	(506)
Purchased services	7,076	7,415	(339)
Supplies and materials	2,500	2,448	52
Capital outlay	200	185	15
Other expenses	13,137	17,662	(4,525)
Total Fiscal Services	218,919	225,410	(6,491)

Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
Internal Services:			
Purchased services	\$ 3,000	\$ 3,866	\$ (866)
Total Internal Services	<u>3,000</u>	<u>3,866</u>	<u>(866)</u>
Other Business Services:			
Other expenses	29,127	28,733	394
Total Other Business Services	<u>29,127</u>	<u>28,733</u>	<u>394</u>
Total Business Services	<u>251,046</u>	<u>258,009</u>	<u>(6,963)</u>
Operation and Maintenance:			
Salaries	340,022	339,533	489
Employee benefits	211,315	213,255	(1,940)
Purchased services	215,306	201,453	13,853
Supplies and materials	366,046	347,507	18,539
Capital outlay	12,565	12,565	-
Total Operation and Maintenance	<u>1,145,254</u>	<u>1,114,313</u>	<u>30,941</u>
Pupil Transportation:			
Salaries	309,044	302,203	6,841
Employee benefits	222,863	211,402	11,461
Purchased services	25,629	22,515	3,114
Supplies and materials	106,900	110,600	(3,700)
Capital outlay	116,310	116,310	-
Other expenses	1,200	2,228	(1,028)
Total Pupil Transportation	<u>781,946</u>	<u>765,258</u>	<u>16,688</u>
Support Services - Central			
Communication Services:			
Salaries	14,400	14,400	-
Employee benefits	4,881	4,849	32
Purchased services	200	48	152
Supplies and materials	1,000	696	304
Capital outlay	-	-	-
Other expenses	-	-	-
Total Communication Services	<u>20,481</u>	<u>19,993</u>	<u>488</u>
Staff/Personnel Services:			
Salaries	12,733	13,528	(795)
Employee benefits	1,318	1,319	(1)
Purchased services	6,240	2,157	4,083
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
Total Staff/Personnel Services	<u>20,291</u>	<u>17,004</u>	<u>3,287</u>
Total Support Services - Central	<u>40,772</u>	<u>36,997</u>	<u>3,775</u>
TOTAL SUPPORTING SERVICES	<u>4,237,748</u>	<u>4,176,032</u>	<u>61,716</u>

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Community Services:			
Community Activities:			
Purchased services	\$ 3,000	\$ 5,000	\$ (2,000)
Total Community Activities	3,000	5,000	(2,000)
Custody and Care of Children:			
Salaries	13,400	10,970	2,430
Employee benefits	3,223	1,763	1,460
Purchased services	1,634	980	654
Supplies and materials	-	4	(4)
Capital outlay	-	-	-
Other expenses	312	312	-
Total Custody and Care of Children	18,569	14,029	4,540
Non-Public School Pupils:			
Purchased services	2,000	-	2,000
Total Non-Public School Pupils	2,000	-	2,000
TOTAL COMMUNITY SERVICES	23,569	19,029	4,540
Payments to Other Public Schools:			
Transfer to other governmental units	85,200	87,760	(2,560)
TOTAL PAYMENTS TO OTHER PUBLIC SCHOOLS	85,200	87,760	(2,560)
Other:			
Principal on notes	45,261	45,262	(1)
Interest and fiscal charges	6,554	6,554	-
TOTAL PAYMENTS TO OTHER PUBLIC SCHOOLS	51,815	51,816	(1)
TOTAL EXPENDITURES	11,901,321	11,849,978	51,343
EXCESS REVENUES (EXPENDITURES)	(184,371)	60,186	244,557
Other Financing Sources (Uses):			
Proceeds from notes	116,310	116,310	-
Transfers in	-	-	-
Transfers out:			
Inter-scholastic Athletics	(142,346)	(135,206)	7,140
School Service	(34,055)	(22,011)	12,044
Debt Service	(127,000)	(127,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(187,091)	(167,907)	19,184
NET CHANGE IN FUND BALANCE	(371,462)	(107,721)	263,741
Fund Balance, July 1	972,197	972,197	-
FUND BALANCE, JUNE 30	\$ 600,735	\$ 864,476	\$ 263,741

**Negaunee Public Schools
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006**

	Special Revenue Funds	Debt Service Funds	Total
ASSETS:			
Cash and equivalents	\$ 784	\$ 138,143	\$ 138,927
Investments	-	9,297	9,297
Accounts receivable	6,350	-	6,350
Due from other governmental units	33,386	-	33,386
Inventories	3,158	-	3,158
TOTAL ASSETS	\$ 43,678	\$ 147,440	\$ 191,118
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 647	\$ -	\$ 647
Due to other funds	43,031	-	43,031
Accrued liabilities	-	-	-
TOTAL LIABILITIES	43,678	-	43,678
FUND BALANCES:			
Reserved for:			
Debt service	-	147,440	147,440
Capital outlay	-	-	-
Unreserved	-	-	-
TOTAL FUND BALANCES	-	147,440	147,440
TOTAL LIABILITIES AND FUND BALANCES	\$ 43,678	\$ 147,440	\$ 191,118

**Negaunee Public Schools
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006**

	Special Revenue Funds	Debt Service Funds	Total
REVENUES:			
Taxes and penalties	\$ -	\$ 419,440	\$ 419,440
State aid - restricted	22,044	-	22,044
Federal sources	192,624	-	192,624
School lunch activities	275,463	-	275,463
Athletic activities	143,865	-	143,865
Interest income	-	13,913	13,913
Other	-	12,670	12,670
TOTAL REVENUES	<u>633,996</u>	<u>446,023</u>	<u>1,080,019</u>
EXPENDITURES:			
School lunch activities	512,142	-	512,142
Athletic activities	279,071	-	279,071
Debt service:			
Principal	-	493,733	493,733
Interest	-	61,837	61,837
Other	-	800	800
TOTAL EXPENDITURES	<u>791,213</u>	<u>556,370</u>	<u>1,347,583</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(157,217)	(110,347)	(267,564)
OTHER FINANCING SOURCES (USES):			
Transfers in	157,217	127,000	284,217
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>157,217</u>	<u>127,000</u>	<u>284,217</u>
NET CHANGE IN FUND BALANCE	-	16,653	16,653
Fund Balance, July 1	-	130,787	130,787
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ 147,440</u>	<u>\$ 147,440</u>

**Negaunee Public Schools
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2006**

	School Lunch Fund	Athletic Fund	Total
ASSETS:			
Cash	\$ -	\$ 784	\$ 784
Accounts receivable	69	6,281	6,350
Due from other governmental units	30,410	2,976	33,386
Inventories	3,158	-	3,158
TOTAL ASSETS	<u>\$ 33,637</u>	<u>\$ 10,041</u>	<u>\$ 43,678</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 55	\$ 592	\$ 647
Due to other funds	33,582	9,449	43,031
Accrued liabilities	-	-	-
TOTAL LIABILITIES	<u>33,637</u>	<u>10,041</u>	<u>43,678</u>
FUND BALANCES:			
Reserved	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 33,637</u>	<u>\$ 10,041</u>	<u>\$ 43,678</u>

Negaunee Public Schools
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

	School Lunch Fund	Athletic Fund	Total
REVENUES:			
School lunch activities	\$ 275,463	\$ -	\$ 275,463
State aid - restricted	22,044	-	22,044
Federal sources	192,624	-	192,624
Athletic activities	-	143,865	143,865
TOTAL REVENUES	490,131	143,865	633,996
EXPENDITURES:			
School lunch activities	512,142	-	512,142
Athletic activities	-	279,071	279,071
TOTAL EXPENDITURES	512,142	279,071	791,213
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(22,011)	(135,206)	(157,217)
OTHER FINANCING SOURCES (USES):			
Transfers in	22,011	135,206	157,217
Transfers (out)	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	\$ -	\$ -	\$ -

**Negaunee Public Schools
School Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local sources:			
Student lunches	\$ 223,170	\$ 224,025	\$ 855
Student breakfast	10,600	10,961	361
Adult lunches	8,472	8,339	(133)
Ala carte sales	28,794	29,189	395
Milk	1,384	1,406	22
Other food receipts	1,070	1,543	473
Total Local Sources	273,490	275,463	1,973
State sources:			
State aid - restricted	23,834	22,044	(1,790)
Total State Sources	23,834	22,044	(1,790)
Federal sources:			
Entitlement payments	170,000	174,216	4,216
Donated commodities	-	18,408	18,408
Total Federal Sources	170,000	192,624	22,624
TOTAL REVENUES	467,324	490,131	22,807
EXPENDITURES:			
School lunch activities:			
Salaries	156,506	153,366	3,140
Employee benefits	63,540	62,727	813
Purchased services	2,588	2,715	(127)
Other costs	48,687	47,587	1,100
Food and milk	216,000	242,690	(26,690)
Donated commodities	11,000	-	11,000
Capital outlay	3,058	3,057	1
TOTAL EXPENDITURES	501,379	512,142	(10,763)
EXCESS REVENUES (EXPENDITURES)	(34,055)	(22,011)	12,044
OTHER FINANCING (USES):			
Transfers in	34,055	22,011	(12,044)
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Negaunee Public Schools
Athletics Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
General admission	\$ 70,300	\$ 69,676	\$ (624)
Participation fees	38,821	39,641	820
Other revenues	27,173	34,548	7,375
TOTAL REVENUES	<u>136,294</u>	<u>143,865</u>	<u>7,571</u>
EXPENDITURES:			
Athletic activities:			
Salaries	149,745	150,398	(653)
Employee benefits	39,745	39,789	(44)
Purchased services	48,147	47,859	288
Supplies and materials	30,988	31,320	(332)
Other	9,765	9,455	310
Capital outlay	250	250	-
TOTAL EXPENDITURES	<u>278,640</u>	<u>279,071</u>	<u>(431)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(142,346)</u>	<u>(135,206)</u>	<u>7,140</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	142,346	135,206	(7,140)
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

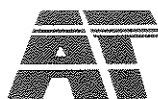
**Negaunee Public Schools
Nonmajor Debt Service Fund
Balance Sheet
June 30, 2006**

ASSETS:	
Cash and equivalents	\$ 138,143
Investments	<u>9,297</u>
TOTAL ASSETS	<u><u>\$ 147,440</u></u>
 LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Accounts payable	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>
 FUND BALANCES:	
Reserved	<u>147,440</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 147,440</u></u>

**Negaunee Public Schools
Nonmajor Debt Service Funds
Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property tax levy	\$ 417,854	\$ 418,031	\$ 177
Penalty and interest on delinquent taxes	1,409	1,409	-
Interest income	13,431	13,913	482
Other	12,670	12,670	-
TOTAL REVENUES	445,364	446,023	659
EXPENDITURES:			
Debt Service:			
Principal	493,733	493,733	-
Interest	61,837	61,837	-
Paying agent fees and other costs	1,850	800	1,050
TOTAL EXPENDITURES	557,420	556,370	1,050
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(112,056)	(110,347)	1,709
OTHER FINANCING SOURCES (USES):			
Transfers in	127,000	127,000	-
TOTAL OTHER FINANCING SOURCES (USES)	127,000	127,000	-
NET CHANGE IN FUND BALANCE	14,944	16,653	1,709
Fund Balance, July 1	130,787	130,787	-
FUND BALANCE, JUNE 30	\$ 145,731	\$ 147,440	\$ 1,709

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Negaunee Public Schools as of and for the year ended June 30, 2006, which collectively comprise the Negaunee Public Schools' basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Negaunee Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment could adversely affect the Negaunee Public Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. These instances are described in a separate report to management letter dated September 22, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Negaunee Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate report to management letter dated September 22, 2006.

This report is intended solely for the information of Negaunee Public Schools, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 22, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Compliance

We have audited the compliance of Negaunee Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Negaunee Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Negaunee Public Schools' management. Our responsibility is to express an opinion on Negaunee Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Negaunee Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Negaunee Public Schools' compliance with those requirements.

In our opinion, Negaunee Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Negaunee Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Negaunee Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of Negaunee Public Schools, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 22, 2006

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/05	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue 6/30/06
U.S. Department of Agriculture: Nutrition Cluster:							
Food Distribution:							
Entitlement Commodities	10.550	18,096	10,909	-	18,096	18,096	-
Bonus Commodities	10.550	313	1,246	-	313	313	-
Sub-total Commodities		18,409	12,155	-	18,409	18,409	-
Passed Through M.D.E.:							
National School Lunch Program:							
Section 4 - Total Serving 1956 & 1957	10.555	40,391	38,187	-	40,391	40,391	-
Section 11- Total Serving 1966 & 1967	10.555	108,545	98,537	-	108,545	108,545	-
Snacks	10.555	455	507	-	455	455	-
Natl. School Breakfast Program	10.553	24,825	22,971	-	24,825	24,825	-
Natl. School Lunch Special Milk	10.556	-	-	-	-	-	-
Sub-total National School Lunch		174,216	160,202	-	174,216	174,216	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		192,625	172,357	-	192,625	192,625	-
National Endowment for the Arts:							
Passed through Michigan council for Arts and Cultural Affairs:							
Arts Services Grant Agreement	45.025	-	-	-	2,900	2,900	-
N/A		-	-	-	2,900	2,900	-
TOTAL NATIONAL ENDOWMENT FOR THE ARTS							
U.S. Department of Education:							
Direct Awards:							
Title VII, Indian Education S060A031215	84.060	\$ 22,525	\$ 22,525	\$ 22,525	\$ -	\$ 22,525	\$ -
Title VII, Indian Education S060A041215	84.060	21,462	-	-	21,462	17,468	3,994
Sub-total Direct Awards		43,987	22,525	22,525	21,462	39,993	3,994
Passed through Michigan Department of Education (M.D.E.):							
E.C.I.A. Title I:							
051530-0405	84.010	198,083	185,916	68,388	12,167	80,555	-
051530-0506	84.010	17,952	-	-	17,952	16,293	1,659
061530-0506	84.010	188,771	-	-	172,733	127,069	45,664
Sub-total E.C.I.A. Title I		404,806	185,916	68,388	202,852	223,917	47,323
Title V LEA Allocation							
060250-0506	84.298	611	-	-	611	-	611
050250-0506	84.298	892	-	-	892	892	-
Sub-total Title V LEA Allocation		1,503	-	-	1,503	892	611

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/05	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue 6/30/06
Technology Literacy Challenge Grants:							
054290-0405	84.318	\$ 5,389	\$ 3,319	\$ -	\$ 2,070	\$ 2,070	\$ -
054290-0506	84.318	101	-	-	101	101	-
064290-0506	84.318	3,522	-	-	3,522	754	2,768
Sub-total Technology Literacy Challenge Grants		9,012	3,319	-	5,693	2,925	2,768
Title IIA, Improving Teacher Quality							
050520-0405	84.367	68,528	76,138	37,629	-	37,629	-
050520-0506	84.367	7,610	-	7,610	-	7,610	-
060520-0506	84.367	75,065	-	-	52,344	36,405	15,939
Sub-total Title IIA, Improving Teacher Quality		151,203	76,138	45,239	52,344	81,644	15,939
TOTAL PASSED THROUGH M.D.E.		566,524	265,373	113,627	262,392	309,378	66,641
Passed Through Marquette-Alger Regional Education Service Agency (MARESA):							
Entrepreneurship Current Development 04-05							
650 W02-01	17.267	600	-	-	600	600	-
Sub-total Entrepreneurship Current Development		600	-	-	600	600	-
P.L. 94-142 Flow Through:							
050450-0405	84.027	88,159	88,159	28,869	-	28,869	-
060450-0506	84.027	61,077	-	-	61,077	43,141	17,936
Sub-total Flow Through		149,236	88,159	28,869	61,077	72,010	17,936
UPAN (Autism Project)							
060490-3D51	84.027	670	-	-	670	670	-
Sub-total UPAN		670	-	-	670	670	-
Carl D. Perkins Vocational and Applied Technologies Education Act:							
063520/6012-02	84.048	12,243	-	-	12,243	12,243	-
Sub-total Carl D. Perkins		12,243	-	-	12,243	12,243	-
Special Education - Preschool Grants:							
060460-0506	84.173	1,000	-	-	1,000	-	1,000
Sub-total Special Education - Preschool Grants		1,000	-	-	1,000	-	1,000

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/05	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue 6/30/06
Safe & Drug Free Schools & Communities: 062860-0506	84.186	\$ 3,095	\$ -	\$ -	\$ 3,095	\$ 3,095	\$ -
Sub-total Safe & Drug Free Schools & Communities		<u>3,095</u>	<u>-</u>	<u>-</u>	<u>3,095</u>	<u>3,095</u>	<u>-</u>
Medicaid FFS-Transportation N/A	93.778	1,236	3,296	-	1,236	1,236	-
Sub-total Medicaid FFS - Transportation		<u>1,236</u>	<u>3,296</u>	<u>-</u>	<u>1,236</u>	<u>1,236</u>	<u>-</u>
TOTAL PASSED THROUGH MARESA		<u>168,080</u>	<u>91,455</u>	<u>28,869</u>	<u>79,921</u>	<u>89,854</u>	<u>18,936</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>778,591</u>	<u>379,353</u>	<u>165,021</u>	<u>363,775</u>	<u>439,225</u>	<u>89,571</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 971,216</u>	<u>\$ 551,710</u>	<u>\$ 165,021</u>	<u>\$ 559,300</u>	<u>\$ 634,750</u>	<u>\$ 89,571</u>

NEGAUNEE PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2006

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE D – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		\$483,593
Add payments not on R7120:		
Food distribution commodities	\$18,409	
Direct Program	21,462	
Passed through MARESA	79,921	
Art Services Grant	<u>2,900</u>	122,692
Less Payments on R7120:		
Recorded as receivable at June 30, 2005:		
Title I	(68,388)	
Title II A, Improving Teacher Quality	<u>(45,240)</u>	(113,628)
Add Payments not on R7120:		
Recorded as receivable at June 30, 2006:		
Title I	47,323	
Title V LEA Allocation	611	
Technology Literacy Challenge	2,768	
Title II A, Improving Teacher Quality	<u>15,939</u>	66,641
Adjustments:		
Due to rounding		<u>2</u>
TOTAL FEDERAL AWARDS EXPENDITURES		
REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		<u><u>\$559,300</u></u>

NOTE D – SCHEDULE OF FEDERAL AWARDS (Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:

Total Federal Revenue Sources Reported in the Financial Statements	\$363,670	
Federal portion of Art Services Grant passed through State	2,900	
LEA Medicaid FFS – Transportation Fees netted against revenue	105	\$366,675

SCHOOL SERVICE SPECIAL REVENUE FUND:

Federal Sources - Entitlements and Commodities Reported in the Financial Statements	192,624
---	---------

ADJUSTMENTS:

Due to rounding	1
-----------------	---

TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	\$559,300
---	-----------

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Negaunee Public Schools.
2. Reportable conditions relating to the audit of the financial statements are reported in Section B of this schedule.
3. Instances of noncompliance material to the financial statements of the Negaunee Public Schools were disclosed during the audit and are reported in Section B of this schedule.
4. No reportable conditions relating to the audit of the major federal award programs are reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Negaunee Public Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Negaunee Public Schools were disclosed during the audit.
7. The programs tested as major programs were:

P.L. 94-142 Flow Through	CFDA 84.027
Carl D. Perkins Vocational and Applied Technologies Education Act	CFDA 84.048
Title VII, Indian Education	CFDA 84.060
Title IIA, Improving Teacher Quality	CFDA 84.367
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Negaunee Public Schools was determined to be a low-risk auditee.

B. FINDINGS – FINDINGS FINANCIAL STATEMENTS AUDIT

The following reportable conditions were noted:

- 06 – 01 **Condition:** Inconsistencies exist in the totaling of hours worked on time cards in the payroll system.
- Criteria:** Internal controls should be in place to ensure consistent reporting of hours.
- Effect:** Errors may occur and not be detected within a timely period by employees.
- Recommendation:** Management should consistently total hours on time cards and have supervisors verify the total hours reported.
- Management Response:** Management concurs.

B. FINDINGS – FINDINGS FINANCIAL STATEMENTS AUDIT (Continued):

The following noncompliance item was noted:

06 – 02 **Condition:** The School District was found to be in violation of the legal and contractual provisions of Public Act 621 whereby excesses of expenditures over appropriations existed in certain individual funds as enumerated in Footnote K of the financial statements.

Criteria: Internal controls should be in place to ensure expenditures do not exceed appropriations.

Effect: When expenditures exceed appropriations, the School District is in violation of Public Act 621 and there is a potential negative impact on the financial position.

Recommendation: Management should monitor expenditures throughout the fiscal year to ensure expenditures do not exceed appropriations.

Management Response: Management concurs.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDITS

➤ **NONE**

NEGAUNEE PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2006

There were no financial statement findings nor findings and questioned costs for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

Negaunee Public Schools
Report to Management Letter
For the Year Ended June 30, 2006

Board of Education
Negaunee Public Schools
Negaunee, MI 49866

In planning and performing our audit of the financial statements of the Negaunee Public Schools for the year ended June 30, 2006; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could affect Negaunee Public Schools ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures, shall be filed with the State Treasurer and reported to the Attorney General.

Board of Education
Negaunee Public Schools
Negaunee, MI 4986

The Negaunee Public Schools was found to be in violation of the legal and contractual provisions of the Uniform Budgeting and Accounting Act (Public Act 621) in certain individual funds as enumerated upon in the Footnotes of the financial statements.

Reportable Conditions

Payroll

It was noted during our testing of the payroll system that inconsistencies existed in the totaling of hours worked on time cards. Some time cards were calculated by rounding to the nearest quarter hour and other time cards were calculated to the minute worked. Also, we noted one time card was calculated at less than what was actually worked. We recommend hours be totaled consistently for all time cards and that supervisors verify the total hours reported are calculated correctly.

Other Comments and Recommendations

Bank Reconciliations

We noted during our cash procedures that outstanding checks are being carried on the books from the former SDS System. We recommend management investigate these old outstanding items.

* * * * *

This report is intended solely for the information and use of the Negaunee Public Schools board, management, and other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Negaunee Public Schools staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Jackman & Company, PLLC
Certified Public Accountants

September 22, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

September 22, 2006

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the basic financial statements of the Negaunee Public Schools for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 25, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Negaunee Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Negaunee Public Schools are described in Footnote A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2006. We noted no transactions entered into by the Negaunee Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Negaunee Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Negaunee Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Negaunee Public Schools' financial reporting process.

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Negaunee Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Conclusion

This information is intended solely for the use of the Negaunee Public Schools Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants